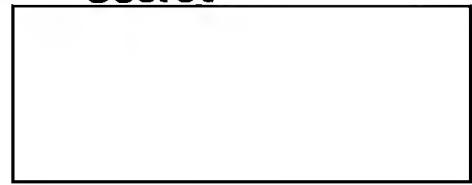


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COMMUNIST CHINA - US: Peking continues to show interest in responding to US initiatives easing trade and travel restrictions.

The Chinese for the first time are permitting foreign representatives of American subsidiary firms to attend the current Canton trade fair, and they have also made tentative inquiries about the possibility of buying certain products directly from US companies in the future. Although the Chinese still have refrained from dealing directly with American businessmen, these developments nevertheless reflect a policy shift on the part of Peking and suggest that the Chinese are poised to make further responses.

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Peking has shown no inclination to backpedal its response to US initiatives in spite of its recent, harsh propaganda attacks on remarks by the State Department's press spokesman concerning the "unsettled" question of Taiwan's sovereignty. Peking's reaction followed by three days Taipei's official demarche on the subject. By contrasting the US position on Taiwan with recent US "gestures to improve relations with China," Peking is attempting to focus on the outstanding problem in Sino-US relations without rejecting these gestures.

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CEYLON: Many insurgents surrendered during the government's truce period, but a substantial force is thought to remain in the field.

At the end of the four-day truce period Tuesday, an official spokesman put the number of insurgents who had surrendered at just under 4,000. This figure is probably exaggerated somewhat, however. Moreover, many of those who surrendered are probably not dedicated insurgents but rather individuals pressed into service by the rebels at the height of the uprising. Many rebels, on the other hand, have probably deserted their cause and returned home quietly rather than surrender or face the protracted jungle fighting that apparently lies ahead.

Earlier estimates of rebel strength--ranging up to 20,000--now appear to have been too high. There may still be as many as 3,000 hard-core insurgents, however, plus an unknown number of less-committed supporters or sympathizers. The rebels are continuing to carry out scattered attacks, often directing them against civilians as well as security patrols. Government forces now intend to step up operations into areas of rebel strength, but it is doubtful that they have the capability to carry out an effective campaign.

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*INTERNATIONAL MONETARY SITUATION: Most West European central banks suspended trading in dollars yesterday in an attempt to stem the inflow of dollar funds, which had reached levels considered by many officials to be intolerable.

Immediately prior to the suspension the German Bundesbank took in \$1 billion, bringing the total inflow to more than \$2 billion since Monday's announcement by five German research institutes recommending upward change in the mark parity. The Swiss National Bank took in a further \$600 million yesterday.

The Bundesbank was the first to act. Most other central banks followed the German lead, in some cases suspending trading in many European currencies as well as in dollars. The French continued accepting dollars but suspended trading in other currencies. Free market gold prices continued to rise, although not to the extent that some observers expected.

Bundesbank President Karl Klasen has announced that German official foreign exchange markets would be closed until Monday. Unofficial foreign exchange trading will continue, but without official support the mark will float. Undoubtedly many other European currencies will also be allowed to float for the remainder of the week while Europeans await the results of a German cabinet meeting scheduled for Friday. Given the suddenness of this most recent monetary disruption, the decision to allow the mark to float for a period of time, as was done in 1969, seems the most prudent course for the German cabinet to follow.

A revaluation of several European currencies relative to the dollar would help the US balance of payments, although resentment against US policies

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would continue. At the same time it would generate new problems within the European Community. The Community members had previously agreed to closer monetary cooperation, in particular to narrowing the allowable fluctuations around official exchange parities, beginning on 15 June.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

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IRAQ: The government has given the oil companies until today to respond to a long list of demands concerned mainly with retroactive payments, increased production, and greater investment.

Iraqi Vice President Ammash specified that neither adjustment of the method of calculating the value of Iraqi oil exported by pipeline to the eastern Mediterranean nor a provision for future upward price adjustment was negotiable. Using tactics similar to those of the recent Tehran and Tripoli negotiations, he threatened to legislate demands not accepted by the companies. He also threatened nationalization if the companies refused to abide by the legislation.

Iraq can ill afford the financial loss of an interruption of its oil flow for very long. Moreover, Baghdad is not likely to get the active support of other major oil producing countries. The oil company negotiators are scheduled to return to Baghdad today but are not expected to go very far toward meeting Iraq's demands. The talks are likely to drag on for some time; Iraq appears determined to play one-upmanship with its Arab brethren.

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NATO: The troublesome questions of Portugal's policy in Africa and the undemocratic nature of the Greek regime are likely to be raised at the ministerial meeting in Lisbon next month.

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Norwegian Foreign Minister Cappelen told Ambassador Crowe earlier this week that he intends to raise both the Portuguese and Greek questions. The Labor government in Oslo is committed to increase pressure on the two regimes and hopes that its exhortations in NATO will help satisfy the activists in Labor's left wing.

Neither the Italians nor the Norwegians want to precipitate a major debate with the Portuguese and the Greeks. Most of the other Allies would also like to avoid any acrimonious discussion. Some Allies were initially reluctant to meet in Lisbon at all. In addition, West German defense officials have considered the idea of providing military assistance to Greece and Portugal through multilateral channels to help deflect criticism of aid to the two governments.

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SOMALIA: Two high-ranking officers of the Supreme Revolutionary Council (SRC) have been arrested, allegedly for plotting against the regime.

Whether or not there was an actual plot, SRC member General Salad Gaveire has long been known as a leading opponent and potential rival of General Siad, the head of the council. For some time following the coup of October 1969, Gaveire was reportedly involved in plotting, but apparently ceased this activity in early 1970. [redacted]

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[redacted] In March of this year, Gaveire was dropped as defense minister when another SRC officer, who was his principal supporter, was purged from the council.

Little is known of the recent activities of SRC Vice President Mohamed Ainanshe, the other victim of what is probably a power play within the council. General Ainanshe may have been under some suspicion last year when he was given a number of assignments that required extensive foreign travel. Several other officers and civilians have also been arrested, according to Mogadiscio radio, but their identity is not known.

Gaveire's arrest is a sharp setback for the anti-Siad clique within the SRC and is a further indication that Siad is slowly strengthening his hand. The departure of the two officers has now reduced the SRC's original total of 25 members to 21, two other officers having been purged earlier. [redacted]

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SOUTH AFRICA - ZAMBIA: Prime Minister Vorster's public disclosure of his private contacts with President Kaunda over the past three years has generated little reaction outside the two countries.

Last month, Vorster announced in Parliament that he had been in communication with Kaunda through envoys and correspondence since mid-1968. His motives for this disclosure are unclear, but certainly one was to discredit Kaunda, one of the most militant exponents of diplomatic and economic sanctions against South Africa. In rebuttal, the Zambian Government has contended that Kaunda was only trying to determine if South Africa could be dissuaded from supporting the rebel regime in Rhodesia and that he never had any intention of establishing a formal relationship with Pretoria. To support its position, Lusaka has released the text of the letters between the two leaders.

Press coverage in both countries has been extensive. Most of the South African press has supported what it sees as a sincere effort by Vorster to improve relations with Zambia, despite Kaunda's known antagonisms toward Pretoria and his support of anti - South African guerrilla groups. The Zambian press in turn has emphasized Kaunda's belief that fundamental differences between Zambian and South African philosophies on human rights precluded any dialogue that would encourage the growth of trade or diplomatic relations. Among most other black states, however, the incident appears to have received only passing notice.

It is still too early to determine whether Vorster will profit from his disclosure in any significant way. The revelation of supposedly secret contacts could frighten away other moderate black African states that might be interested in establishing private contacts with Pretoria. On the other hand, Vorster presumably believed that if he could damage Kaunda's credibility, this would

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help clear the way for moderates to respond to South Africa's call for a dialogue and would more than justify the potential disadvantages. To demonstrate to moderates that it can be discreet, South African officials have pointed out on occasion that Pretoria refrains from publishing a breakdown of trade statistics between South African and individual African countries "out of respect for sensibilities of black African states."

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ECUADOR: A cabinet resignation has shaken the Velasco government.

Minister of Government Galo Martinez resigned on Tuesday in protest to President Velasco's accusation that he had been involved in the clandestine return from exile of former Guayas prefect Assad Bucaram. Rumors that Bucaram, who is one of the President's most bitter critics, had returned have been circulating for several weeks. His first public appearance was by video tape played on TV stations in Quito and Guayaquil on Tuesday.

Martinez, one of the President's most loyal friends and lieutenants, is the third prominent presidential follower to leave the scene in past months. Although Martinez appears to have been outraged at the President's accusations, he is a shrewd politician and may believe that the time has come to leave the government.

If Bucaram is allowed free movement it would indicate that Velasco has lost support from the military, increasing the likelihood that he will soon leave office.

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LATIN AMERICA - USSR - UN: Two Russian trade technicians will soon join the staff of the UN Economic Commission for Latin America (ECLA) under an arrangement in which the USSR will pay part of their salaries. The two will work in ECLA's trade policy division, which is studying expanded Latin American commerce with Communist countries. The Soviet Embassy in Santiago has for some years included an official whose chief duty is liaison with ECLA, which has its headquarters in Chile.

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ALBANIA-GREECE: The Greek Government is scheduled to announce today that after 31 years it has decided to re-establish diplomatic relations with Albania. Agreement was reached despite the fact that the two countries technically are still at war because no peace treaty has been concluded following World War II.

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an ambassador will be sent to Tirana as soon as possible.

The Greek Government believes the move will benefit its general posture in the Balkans and may help eventually lay to rest the historical dispute over the territory of northern Epirus (now part of Albania). For Albania, the move fits in with its nearly two-year-old drive to normalize relations with its neighbors, and establish relations with the states of the Mediterranean Basin and Western Europe.

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